

Internal Audit Report

**BUREAU OF FACILITIES
CONTRACT COMPLIANCE
UTILITIES CONTRACTS
MAY 2007**

Office of the County Auditor





OFFICE OF THE COUNTY AUDITOR

Haskell Arnold, CPA
County Auditor
May 2007

The County Council and County Executive
of Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we
have conducted a review of selected activities of the

BUREAU OF FACILITIES
CONTRACT COMPLIANCE
UTILITIES CONTRACTS

and our report is submitted herewith. The scope of our examination related specifically to a review
of compliance with contracts for electricity, natural gas and heating oil. The body of our report
presents our findings and recommendations.

The contents of this report have been reviewed with the Chief Administrative Officer
and the Chief of the Bureau of Facilities. We wish to express our gratitude to the Bureau of
Facilities for the cooperation and assistance extended to us during the course of this engagement.

A handwritten signature in black ink, reading "Haskell N. Arnold".

Haskell N. Arnold, C.P.A.
County Auditor

A handwritten signature in black ink, reading "Lisa L. Geerman".

Lisa L. Geerman, C.P.A.
Auditor-in-Charge

SUMMARY

We performed a contract compliance review of the contracts for electricity, natural gas and heating fuel entered into by the County. We reviewed contracts and payments for fiscal year 2005 and the first half of fiscal year 2006. We found that although the County and the vendors appear to be in compliance with the contracts, additional checks are needed to determine if the prices charged are correct. In addition, written policies and procedures need to be prepared and kept current in order to ensure that personnel are aware of all requirements.

We made several recommendations to improve the payment process over invoices for the purchase and delivery of electricity, natural gas and heating fuel. These recommendations will help the County determine that all documentation is in place and that payments are made promptly and correctly, as well as provide back-up directions in the event assigned personnel are unavailable.

INTRODUCTION AND SCOPE

We reviewed contracts for the purchase and delivery of utilities throughout the county to determine if the county is in compliance with the terms of the contracts and to review the payments made under the contract. We specifically reviewed electricity, natural gas, and heating oil contracts and payments. We examined the contracts for compliance with the terms stated. We did not examine the bidding process in this review.

We specifically reviewed expenditures made in FY 2005 and the first half of FY 2006 which were recorded in the Bureau of Facilities in the Department of Public Works under the object entitled Utilities. Expenditures totaled \$3,259,703 for FY 2005. The approved budget for this object for FY 2005 was \$3,418,869. The FY 2006 approved budget is \$3,762,399, and expenditures for the first six months of FY 2006 total \$1,738,928. This object includes the costs for the supply and delivery of electricity, natural gas, heating fuel, and propane. The majority of the account is for the purchase of and delivery of electricity.

BACKGROUND

The County contracts with various vendors for the supply and delivery of electricity and natural gas. These contracts are bid through the Office of Purchasing and administered by the Bureau of Facilities. Due to deregulation in the electricity industry, separate contracts exist for the purchase of electricity and the delivery of that electricity. The deliverer of electricity is BGE because BGE owns the lines. The electricity can be purchased from BGE or a number of other suppliers approved by the Public Service Commission. BGE is the provider of last resort when no other supplier is available. The County bid the contract for the supply of electricity and Reliant Energy won the contract.

Electricity costs are made up of two elements, supply of electricity and delivery of electricity. The County has purchased its supply of electricity through competitive processes under the auspices of the Baltimore Regional Cooperative Procurement Committee (BRCPC) for the past several years. The BRCPC will be procuring electricity competitively through the commodities market in the near future. It is expected that this process will result in a savings of about \$5 million annually amongst the six participating counties. Delivery of electricity is through BGE and Alleghany Power, which owns the wires that serve the County. Distribution of electricity is regulated by the Maryland Public Services Commission.

Natural Gas is purchased by the County in a manner that is similar to the purchase of electricity. The County has been piggy-backing on the State's competitively bid area wide contract for several years. The current contract is with Washington Gas Energy Services and is for the period from July 1, 2001 through June 30, 2002, with an option for four one year extensions. It has been extended through June 30, 2006. This year the County will be participating with the BRCPC in procuring a supply of natural gas competitively through the commodities market. The distribution of natural gas is regulated by the Maryland Public Services Commission. BGE is the sole distributor of natural gas in the County. Washington Gas Energy Services is the County's main supplier of natural gas.

FINDINGS AND RECOMMENDATIONS

Electricity

BGE is the deliverer of electricity. BGE may or may not be the supplier of the electricity. Other suppliers include Reliant Energy and Constellation Energy. The County has contracts with electricity suppliers. We reviewed the current contract with Reliant Energy and Constellation Energy for the purchase of electricity. BGE does not enter into contracts with the County. Instead, fees are included in tariff schedules for all entities requesting delivery of electricity. Schedules vary depending on quantity and voltage used. We reviewed the tariff schedules applicable to the County. Although most of the electricity delivered in the County is delivered by BGE, a small portion in the western end of the County is delivered by Alleghany Power.

Over 300 electric accounts with BGE are charged fees using the Electric Service Rates & Tariffs of BGE. The rate varies depending on the schedule used.

Schedule P – Primary Voltage Service is for high voltage service and the County has only three of these accounts. One is for the Howard County Government Complex at Court House Drive at a cost of approximately \$385,000 per year, one is at the Wastewater Treatment Plant at a cost of approximately \$636,000 per year, and one is at the Water Pumping Station at a cost of approximately \$129,000 per year.

Schedule G – General Service is for traffic signal service, telecommunications network service, and all purposes where the customer does not qualify for any other rate schedule.

Schedule GS – General Service Small is for use when the customer qualifies for Schedule G, and where consumption is 2,000 kWh or more in any month.

Schedule GL – General Service Large is for use when the customer when the customer has established a monthly demand of 60 kW or more.

BGE is also the Provider of Last Resort (POLR) for those accounts which are unable to obtain a competitively bid price.

We found that there were very few written procedures covering the payment of invoices for electricity. Only one written procedure was provided which was undated. We were told that it was being followed, and found that this is accurate. The procedure was a half of a page in length, and did not include information as to who was to perform any of the procedures. We recommend that:

1. *Written policies and procedures be developed to ensure that proper procedures are followed to verify the bills before they are paid, no matter who may be performing the function. Units used according to BGE (deliverer) should be tied to units received according to Reliant Energy (supplier) or other supplier as is required by the procedure.*

Administration's Response:

The Administration concurs with this recommendation. Staff within the Bureau of Facilities will develop the requested written policies and procedures.

Natural Gas

The County also purchases natural gas for some buildings, primarily the Detention Center as well as approximately ten other sites. We reviewed the contract with Washington Gas Energy Services for the purchase of gas. BGE also charges for the delivery of the gas and these charges are included in the tariffs.

Natural Gas suppliers must be licensed by the Maryland Public Service Commission and qualified by BGE before they are eligible to enroll customers in territory controlled by BGE. Washington Gas Energy, Inc. is a participating commercial supplier and is the natural gas supplier for the County. Although the County purchases natural gas from Washington Gas, it also pays BGE to deliver the natural gas. We reviewed invoices from Washington Gas Energy, Inc. for the purchase of natural gas and invoices from BGE for the purchase of natural gas from Washington Gas and the delivery of natural gas by BGE. There is one large natural gas account in the County and that is at the Detention Center. There are eleven smaller accounts scattered throughout the County.

We found that there were very few written procedures covering the payment of invoices for natural gas. Only two written procedures were provided, one was undated, the other one was dated from 2002, and each were one page in length. We were told that the procedures were being followed, but we found some discrepancies. We recommend that:

2. *Written policies and procedures be developed to ensure that proper procedures are followed to verify the bills before they are paid, no matter who may be performing the function. Related bills should have the same closing date.*

Administration's Response:

The Administration concurs with this recommendation. Staff within the Bureau of Facilities will develop the requested written policies and procedures.

In addition, we found several occasions when late payment penalties were assessed and paid. Every effort should be made to pay invoices in a timely manner. We recommend that:

3. *Invoices be paid promptly to avoid penalties for late payment.*

Administration's Response:

The Administration concurs with this recommendation. The Bureau of Facilities has always placed the payment of utility invoices at its highest priority and pays all utility invoices so as to avoid any possibility of late payment charges. The few invoices that included late payment charges were the result of invoices sent in error to the wrong authorizing Bureau.

The Bureau of Facilities will continue to process utility invoices as quickly as possible to avoid any late payment charges and will continue to work with the Department of Finance to assure the accurate distribution of utility invoices for verification.

Heating Fuel

The Baltimore Regional Cooperative Purchasing Committee (BRCPC) procured the bids for Heating Fuel. C. Hoffberger Company was the low bidder and is currently the supplier of heating oil to the County. The contract is for the period from August 23, 2005 through August 22, 2006 with a one year renewal option remaining. We reviewed payments made under the contract and found that the price paid per gallon varied and did not appear to be reviewed or approved prior to payment. The contract states that the price for heating oil is OPIS plus .1295. OPIS is the Oil Price Information Index and is adjusted weekly by the State of Maryland. We recommend that:

4. *The Oil Price Information Index (OPIS) be reviewed when invoices are received to determine that the price charged per gallon is correct.*

Administration's Response:

The Administration concurs with this recommendation. The Bureau of Facilities has already added an additional level of review on the fuel oil invoice verification and the invoice verification procedures, to be assured in the certification that the proper OPIS index was used in the invoice billing.

Other Expenditures for Power

The County purchases power from other sources in smaller amounts. These were not covered by the scope of our audit. These include the purchase of natural gas from Amerigas, as well as other smaller purchases.

Expenditures for Street Lighting are also part of the County's purchase of power and total approximately \$320,000 per year. This is paid to BGE at a rate determined by tariff schedule SL. Street Lighting expenditures are reported under the Bureau of Traffic Maintenance, not the Bureau of Facilities, and were not covered in the scope of our audit.

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